

### QUICK STATS

	Current	Yr.	Qtr.
Vacancy	13.38%	↑	↑
Lease Rates	\$1.95	↑	↑
Net Absorption*	17,178 SF	↓	↑
Construction	2,140,250 sf	↑	↑

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

### HOT TOPICS

- The Sacramento office market rebounded from the third quarter by posting a positive net absorption of 17,178 square feet.
- Increasing lease rates are attributed to rising construction costs, increased costs for tenant improvements, and major property owners raising average asking rents.
- There is currently 2.1 million square feet of office space under construction.

### MARKET OVERVIEW

The Sacramento office market had its ups and downs in 2007, but finished the year on an optimistic note. The fourth quarter posted positive net absorption; however, there was a slight increase in the vacancy rate. Sacramento's net absorption was a positive 17,178 square feet, which reflected a modest improvement from the third quarter. These numbers give a clear indication of the resilience of the Sacramento market, and its ability to absorb space under difficult economic pressures. Even with Sacramento's positive absorption, vacancy rates increased by a small margin. Sacramento's fourth quarter vacancy ended at 13.38%, which is a .51% increase from the third quarter. This rise in vacancy can be attributed to the completion of 240,000 square feet of new construction. In 2007, the Sacramento office market faced several difficult challenges, most notably from the housing mortgage sub-prime crisis. Nevertheless, it was still able to post a positive net absorption of 505,936 square feet for the year.

*The Sacramento office market showed its resilience and its ability to absorb space under difficult economic pressures.*

Activity in the market has remained strong. The State of California has continued to grow and still has office space requirements in spite of the budget deficit. Geographically, the State has been focused on the Downtown and Highway 50 submarkets. During 2007, the State of California signed several significant leases including:

- Department of Corrections, 2 leases in 2007 totaling 250,000sf
- State Controller's Office, 2 leases totaling 250,000sf
- Consumer Affairs with 80,000sf

In the private sector, the most active tenants occupying the vacant space are users in the medical, financial, healthcare and insurance fields. The growth in these industries are a direct reflection of the services needed for our nation's aging population.

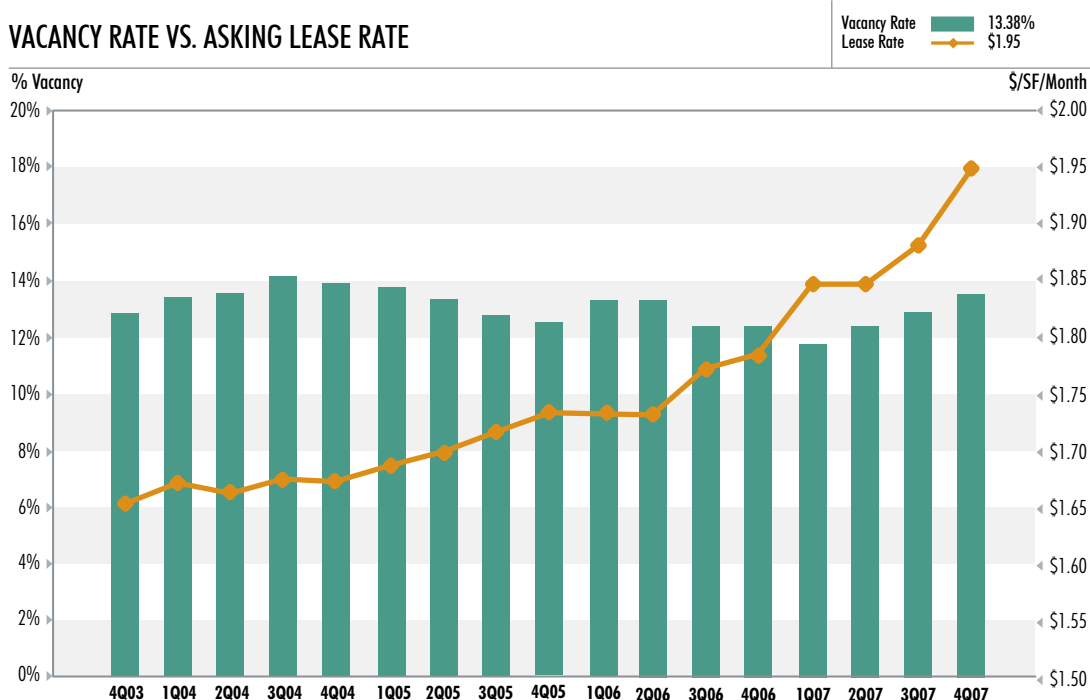
Throughout 2007, construction continued in the newer and growth submarkets adding over 1 million square feet of new space. In the 4th quarter alone, the Roseville/Rocklin submarket added 240,000 square feet of new product.

In 2007, very little new construction was completed in the more mature submarkets such as Downtown, South Natomas, Campus Commons, and Watt Avenue. In turn, these same submarkets posted the lowest overall vacancy.

For 2008, three new major office buildings are under construction in the downtown area; 621 and 500 Capitol Mall and the STRS building in West Sacramento. These projects total 1.2 million square feet. The two buildings on Capitol Mall have pre-leasing commitments for approximately 35% and STRS will occupy their entire building. (Note: STRS building, 428,000 square feet, is an owner occupied building and will not be tracked in our database).

Lease rates are on the rise as well, but much of these gains have been eroded by the rising costs of new construction and tenant improvements. Average lease rates market wide increased \$.07 in the fourth quarter. Submarkets that had the most influence on rising rents were Downtown, Midtown, South Natomas, and Folsom.

### VACANCY RATE VS. ASKING LEASE RATE



Area	Submarket	Leasable Sq. Ft.	Vacant Sq. Ft.	Vacancy Rate	Net Absorption	YTD Net Absorption	Under Construction	Avg. Lease Rates*	Class A Quoted Rates*
92	South Natomas	2,683,976	277,895	10.35%	(18,345)	165,746	427,679	\$2.20	\$2.30
78	Northgate / Natomas	2,252,421	356,740	15.84%	(11,732)	37,927	90,000	\$1.85	\$2.27
72	Midtown	1,843,226	256,983	13.94%	7,221	6,157	55,000	\$2.01	n/a
85	Campus Commons	1,594,303	185,109	11.61%	(7,154)	(8,933)	34,000	\$2.02	n/a
84	Point West	2,337,190	401,688	17.19%	(978)	(63,283)	0	\$1.99	\$2.50
77	Howe / Fulton	1,587,210	206,210	12.99%	(18,702)	(56,641)	0	\$1.59	n/a
79	Watt Avenue	1,362,322	106,425	7.81%	10,226	13,743	0	\$1.89	n/a
80	Highway 50 Corridor	11,268,909	1,134,776	10.07%	(13,399)	(73,303)	0	\$1.70	\$1.95
81	Carmichael / Fair Oaks	374,163	42,067	11.24%	2,162	(5,627)	0	\$1.53	n/a
83	Citrus Heights / Orangevale	1,015,088	99,740	9.83%	(6,585)	(23,120)	0	\$1.57	n/a
88	Roseville / Rocklin	6,017,466	1,215,485	20.20%	14,847	87,615	579,558	\$2.15	\$2.50
74	South Sacramento	1,325,506	110,572	8.34%	(8,058)	74,080	63,718	\$1.40	n/a
75	East Sacramento	280,100	89,345	31.90%	0	0	0	\$2.03	n/a
87	Elk Grove	821,317	285,495	34.76%	5,448	67,015	50,000	\$2.07	\$2.50
73	West Sacramento	1,225,272	274,861	22.43%	(5,946)	10,821	0	\$1.39	n/a
86	Folsom	2,468,049	403,359	16.34%	11,518	(16,274)	68,295	\$2.10	\$2.50
	<b>Suburban Total</b>	<b>38,456,518</b>	<b>5,446,750</b>	<b>14.16%</b>	<b>(39,477)</b>	<b>215,923</b>	<b>1,368,250</b>	<b>\$1.92</b>	<b>\$2.40</b>
71	Downtown	10,211,649	1,066,621	10.45%	56,655	290,013	772,000	\$2.12	\$3.25
	<b>Market Total</b>	<b>48,668,167</b>	<b>6,513,371</b>	<b>13.38%</b>	<b>17,178</b>	<b>505,936</b>	<b>2,140,250</b>	<b>\$1.95</b>	<b>\$2.75</b>

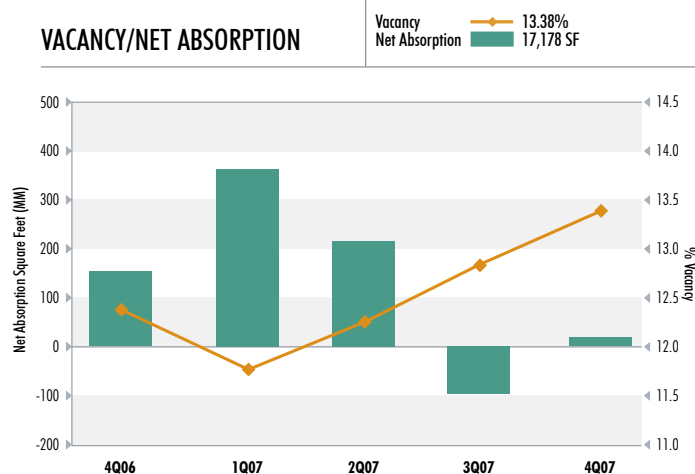
Only existing single and multi-tenant office properties over 10,000 square feet, excluding government-owned buildings and medical buildings, are included in this survey.

\* Average asking rate is based on direct leases only; excludes sublease space. Rates are based on price per square foot per month for full service.

## MARKET OUTLOOK

The Sacramento office market continued its positive trends in 2007, despite the changing economy. As we move into 2008 an area to watch is Roseville/Rocklin, which faces several challenges in absorbing its abundance of sublease space and the new product that came online in the fourth quarter. Highway 50 will continue to be an intriguing market to companies looking for affordable space. The Downtown and Midtown markets will continue to lead the way for Sacramento's urban renewal via newly renovated buildings, high-rise construction, restaurants, clubs, art galleries and housing. With environmental issues becoming more prominent, Sacramento is embracing the production of Green Buildings. Owners are realizing that the cost savings benefit may outweigh the actual out of pocket costs of building to a green standard.

## VACANCY/NET ABSORPTION



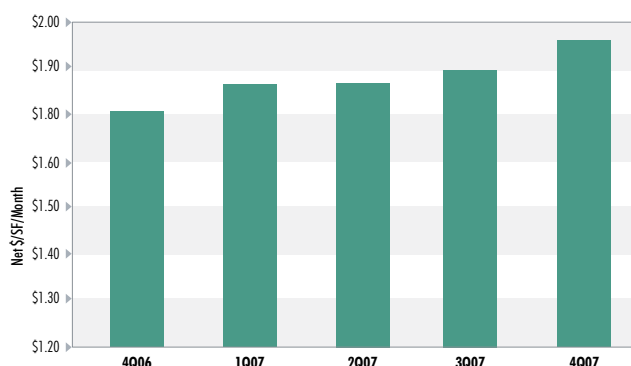
## VACANCY RATE

The Sacramento office vacancy rate at year-end was 13.38%, increasing slightly from 12.87% in the third quarter. Three major factors to the increase in Sacramento's vacancy rate are: 1.) the loss of companies related to the residential sector, 2.) the incoming supply of newly completed office buildings, and 3.) sublease space converting to direct space.

## NET ABSORPTION

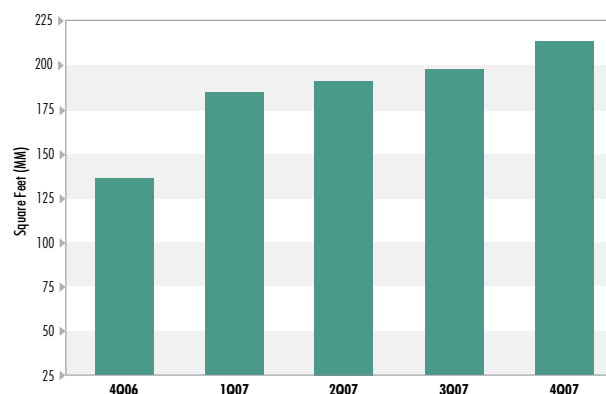
In the fourth quarter of 2007, the Sacramento market posted positive absorption of 17,178 square feet, which is a strong rebound from the third quarter. The Downtown submarket carried the Sacramento region by posting 56,655 square feet of absorption. Overall activity in Sacramento was evenly paced throughout the quarter as shown by the small range of positive or negative absorption within all markets.

## AVERAGE ASKING LEASE RATES



At the end of the fourth quarter the average overall asking lease rates climbed \$.07 to \$1.95. Midtown, South Natomas, and Folsom had the highest average increases in lease rates from third to fourth quarter. The increasing rental rates in these submarkets are a result of major property owners taking aggressive stances in asking for higher rents. From these actions many other landlords followed suite, thus pushing the average asking lease rate up. Other reasons for escalating rental rates are the rising costs of construction and the increased costs for tenant improvements.

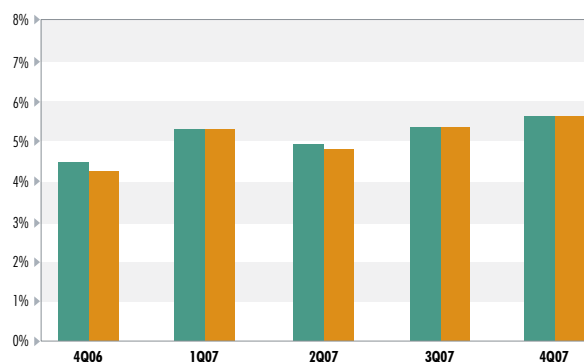
## CONSTRUCTION ACTIVITY



Completed construction during the fourth quarter for buildings 10,000 square feet and over totaled 240,000 square feet. The Rocklin Corporate Center at West Oaks Boulevard contributed the majority of the space with 228,000 square feet. Downtown still has 772,000 square feet under development. 621 Capitol Mall is nearing completion with 342,000 square feet, and is on schedule for occupancy in Spring of 2008. 500 Capitol Mall, a Class A 430,000 square foot building, is expected to be completed in 2009. Currently, there is 2.1 million square feet under construction and approximately 4.2 million square feet of planned office projects throughout the greater Sacramento market.

## UNEMPLOYMENT RATE

California 5.4%  
Sacramento MSA 5.4%



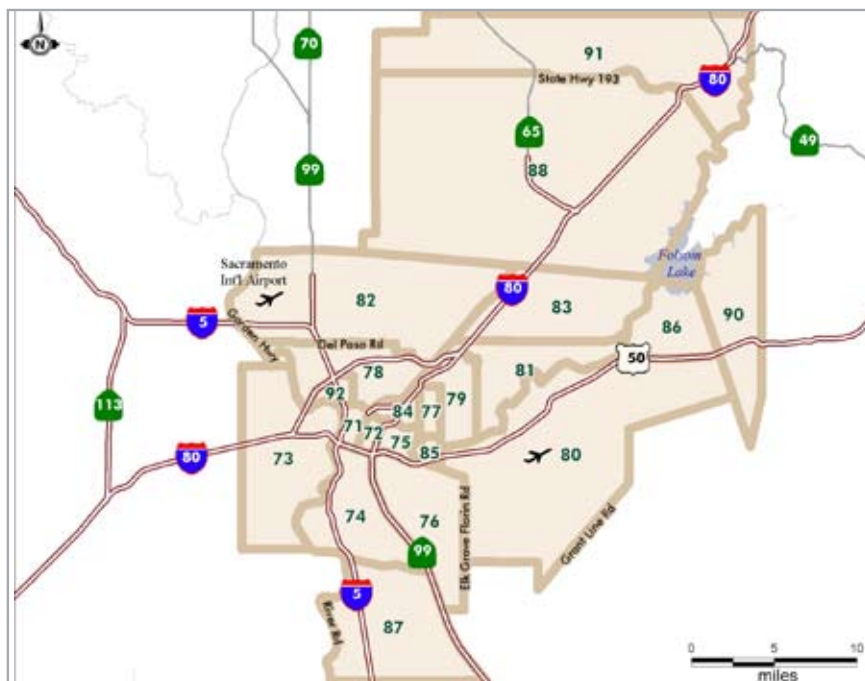
In August 2007, the California Employment Development Department reported 5.4% unemployment rate for the Sacramento area; up 0.6% from May 2007 and 0.8% above last year's estimate of 4.6%. The unemployment rate for California is 5.4% while the national rate is slightly lower at 4.6%.

In the past year, the number of jobs in the Sacramento area has increased by 13,600. This 1.5% increase is due in large part to the government, which added 8,200 jobs at the federal, state and local levels. The slowdown in the housing market resulted in the loss of 4,800 construction jobs and 1,900 financial activities jobs.

## SUBMARKET AREA DESCRIPTIONS

LOCATION / MARKET AREA	MARKET NRA	MARKET SHARE
71 DOWNTOWN	10.2 million SF	20.5%
72 MIDTOWN	1.8 million SF	3.7%
73 WEST SACRAMENTO	1.2 million SF	2.5%
74 SOUTH SACRAMENTO	1.3 million SF	2.7%
75 EAST SACRAMENTO	0.2 million SF	0.6%
77 HOWE/FULTON	1.6 million SF	3.2%
78 NORTHGATE/NATOMAS	2.2 million SF	4.5%
79 WATT AVENUE	1.4 million SF	2.7%
80 HIGHWAY 50 CORRIDOR	10.9 million SF	22.5%
81 CARMICHAEL/FAIR OAKS	0.3 million SF	0.7%
82 NORTH HIGHLANDS *	1.3 million SF	3.0%
83 CITRUS HEIGHTS/ROSEVILLE	1.0 million SF	2.0%
84 POINT WEST	2.3 million SF	4.7%
85 CAMPUS COMMONS	1.6 million SF	3.2%
86 FOLSOM	2.2 million SF	4.9%
87 ELK GROVE	0.7 million SF	1.6%
88 ROSEVILLE/ROCKLIN	5.6 million SF	12.0%
92 SOUTH NATOMAS	2.6 million SF	5.4%

\* North Highlands not tracked for office statistics.



## LOCAL OFFICES

## SACRAMENTO

555 Capitol Mall, Suite 100  
Sacramento, CA 95814  
1.916.446.6800

## ROSEVILLE

1512 Eureka Road, Suite 100  
Roseville, CA 95661  
1.916.781.2400

## FRESNO

10 River Park Place East  
Fresno, CA 93720-1531  
1.559.433.3500

## OAKLAND

155 Grand Avenue, Suite 100  
Oakland, CA 94612  
1.510.874.1900

## PLEASANTON

5000 Hopyard Road, Suite 180  
Pleasanton, CA 94588  
1.925.251.4600

## RENO

6980 Sierra Center Pkwy, Suite 160  
Reno, NV 89511  
1.775.356.6118

## STOCKTON

1776 West March Lane, Suite 170  
Stockton, CA 95207  
1.209.473.7800

## SAN FRANCISCO DOWNTOWN

275 Battery Street, Suite 1300  
San Francisco, CA 94111  
1.415.772.0123

## SAN FRANCISCO PENINSULA

950 Tower Lane, Suite 870  
Foster City, CA 94404  
1.650.577.2900

## SILICON VALLEY

226 Airport Parkway, Suite 150  
San Jose, CA 95110  
1.408.453.7400

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## TERMINOLOGY

**AVERAGE ASKING DIRECT LEASE RATE:** The rate determined by multiplying the asking lease rate for each building in the summary by its associated vacant available space, summing the products, then dividing by the sum of the vacant available spaces with leases for all buildings in the summary. Direct leases only; excludes sublease space. Rates are reported \$ per Sq.Ft. per month.

**MARKET COVERAGE:** Includes all existing single and multi-tenant buildings 10,000 square feet and larger, excluding government-owned and medical buildings.

**NET ABSORPTION:** The change in Occupied Square Feet from one period to the next.

**NET RENTABLE AREA (NRA):** The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

**OCCUPIED SQUARE FEET:** NRA not considered vacant.

**UNDER CONSTRUCTION:** Buildings which have begun construction as evidenced by site excavation or foundation work.

**VACANT SQUARE FEET:** Available NRA which is either physically vacant or immediately available. Meaning non-occupied, non-rent producing space.

**VACANCY RATE:** Vacant Square Feet divided by the NRA.

For more information regarding the MarketView, please contact:

Ben Harris

Office Market Research Specialist

CB Richard Ellis

555 Capitol Mall, Ste. 100, Sacramento, CA 95814

T. 916.492.6971 F. 916.446.8750

ben.harris@cbre.com